

VZCZCXRO2316
OO RUEHDT RUEHPB
DE RUEHHM #0062/01 0221013
ZNR UUUUU ZZH
O P 221013Z JAN 09
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5340
INFO RUEHHI/AMEMBASSY HANOI PRIORITY 3542
RUEHHM/AMCONSUL HO CHI MINH CITY PRIORITY 5576
RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE
RUCPDOG/USDOC WASHDC PRIORITY 0108
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC

UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 000062

SENSITIVE
SIPDIS

STATE FOR EAP/MLS, USAID/ANE, EEB/TPP/BTA/ANA
USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO
TREASURY FOR CHUN

E.O. 12958: N/A
TAGS: [ECON](#) [ELAB](#) [ETRD](#) [EWWT](#) [SOCI](#) [PGOV](#) [VM](#)
SUBJECT: GLOBAL SLUMP SLASHES HCMC PORT VOLUMES

REF: A) HCMC 11 "FALLING U.S. CONSUMER DEMAND PROMPTS CLOSINGS"

HO CHI MIN 00000062 001.2 OF 002

11. (SBU) Summary. The global economic slowdown has slashed Ho Chi Minh City (HCMC) cargo throughput by over 50 percent, forcing port operators, shipping firms and freight forwarders to aggressively reduce fees and cut costs. Although the international shipping company American President's Line has cut capacity by 20 percent, they report that trade volumes from garments and apparel are down only marginally, while niche cargos such as refrigerated seafood shipments have increased. Thinking long-term, the cargo industry wants desperately to hold on to valued staff and is deferring decisions on layoffs until early spring, hoping for a rebound in U.S. and European consumer sentiment. End Summary.

Global Slowdown Slashes Cargo Volume

12. (SBU) With factories closing by the hundreds, (reftel A) an odd calm has replaced the frenzy of crane, barge, and truck traffic that usually jams HCMC's ports the weeks before the Lunar New Year Tet Holiday. Wann Shang Jye, General Director of the Vietnam International Container Terminal (VICT), HCMC's busiest foreign-invested container port, told EconOff that container volumes crashed in the fourth quarter of 2008, and were down over 50 percent against last year. Bui Quang Hung, Managing Director Vietnamese freight forwarder Sunny Transportation said overall business was down 60 percent in the last month, with U.S.-bound footwear shipments decreasing by half. The Managing Director of the American President's Line-Vietnam (APL), a subsidiary of Singapore-based shipper Neptune Orient Lines, said that the company laid up 20 percent of their trans-Pacific fleet in November, three months earlier than the usual post-Tet maintenance break.

Revenues Plunge on Lower Volumes

13. (SBU) Port operators, shipping firms and freight forwarders are not only seeing revenues shrink from lower trade volumes, but are also being forced to cut fees to maintain a shrinking customer base. Hung of Sunny Transportation said the cost to ship a twenty-foot equivalent container from HCMC to Europe has decreased from \$1200 to \$300 in the past year, while air freight costs to Los Angeles have dropped from \$3 per kilogram to \$1.40 in the same time period. VICT officials anticipate lowering port fees seven to ten per cent in upcoming months, while the state-owned freight forwarder VINATRANS said it had just lowered its fees by an average of 60 percent, despite the fact that December revenues were down 40 percent from last year.

Cutting Costs, not Staff (So Far...)

14. (SBU) While none of our shipping interlocutors have enacted major layoffs, all were slashing operating costs. VICT has cut entertainment expenses, deferred port equipment maintenance, prohibited truck engine idling, and is negotiating salary contracts with stevedores and truckers that are well below inflation. Hung said Sunny Transportation will use the lull in business to focus on staff training, noting he was loath to risk losing highly-skilled employees. VINATRANS said that as an SOE, it cannot legally layoff workers until it is functionally bankrupt, but instead it will begin to lower staff salaries in 10 percent increments in coming months if the downturn continues. With the exception of VINATRANS, however, all of the firms said layoffs in the second or third quarter of 2009 were inevitable if trade volumes don't recover. (Note: APL laid off approximately ten percent of its world-wide workforce last month, but said layoffs in Vietnam to date were 'minor'. End Note.)

Economic Cycle Brings Shared Hardships

16. (SBU) The Director of VINATRANS told EconOff "it was much worse in 1986", while reminiscing about that era's 500 per cent inflation, echoing a common theme of determined resilience voiced by all of our Vietnamese interlocutors. Others told us that "we survived the (U.S.) embargo" and "no one will starve" (noting Vietnam's strong agricultural sector), indicating that Vietnam's tumultuous economic history had prepared them for the hardships of the current downturn. Despite some griping about the easy access to credit enjoyed by SOE conglomerates, our Vietnamese interlocutors took comfort in the fact that transportation sector enterprises "were in this together."

Niche Markets, Higher-End Products Still Shipping Strong

HO CHI MIN 00000062 002.2 OF 002

17. (SBU) Several isolated sectors of growth and stability stand out amid the collapsing trade data. APL said their one growth area was in refrigerated containers to the EU and Russia, and speculated that hard economic times were substituting Vietnamese catfish (tra and basa) for Atlantic salmon on European dinner plates. Explaining why APL's container throughput was down less than its competitors (down 20 percent versus an overall HCMC port volume decrease of 50 percent) APL's Managing Director explained that most of the factories that have closed so far in southern Vietnam are small, low-end producers, not the sub-contractors of the major brand names (e.g., Nike and Gap) that constitute APL's core customer base.

Comment:

18. (SBU) Vietnam's shipping sector is in survival mode, cutting costs and slashing fees in order to hold on to valued employees and customers until trade volumes pick up again. If European and U.S. retailers are still sitting on sizeable stocks of unsold merchandise stock by early spring, the shipping slump will likely worsen, and major layoffs can be expected at private and foreign-invested shipping firms. End comment.

19. (U) This cable was coordinated with Embassy Hanoi.
FAIRFAX